

## Message Text

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ACTION EB-07

INFO OCT-01 NEA-09 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

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LAB-04 SIL-01 OMB-01 SS-15 NSC-05 DODE-00 PA-01

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 7845

INFO AMEMBASSY DACCA

AMEMBASSY KATHMANDU

AMCONSUL CALCUTTA

LIMITED OFFICIAL USE NEW DELHI 4401

E.O. 11652: N/A

TAGS: PFOR, IN, NP

SUBJECT: INDO-NEPALESE TRADE TALKS

SUMMARY: INDIA CONFIRMED TO THE NEPALESE TEAM AT THE TRADE TALKS IN DELHI MARCH 24-26 THAT TI WOULD SELL KEY COMMODITIES TO NEPAL AT THE SAME PRICES IT SELLS TO OTHER NEIGHBORS, NOT AT THE GENERALLY LOWER DOMESTIC INDIAN PRICES. FOREIGN MINISTRY SOURCES MAINTAIN THIS IS SIMPLY A "RATIONALIZATION" OF INDO-NEPALESE ECONOMIC RELATIONS. NEPALESE HERE VIEW THE DECISION AS POLITICAL. THEY WONDER WHERE NEPAL WILL FIND THE ADDITIONAL INDIAN RS. 80 MILLION ANNUALLY (\$10 MILLION). BOTH THEY AND THE INDIANS AGREE, HOWEVER, THAT IN THE LONGER RUN THIS MAY LEAD TO A MORE "NORMAL" RELATIONSHIP BETWEEN THE TWO COUNTRIES. END SUMMARY.

1. THE INDO-NEPALESE JOINT REVIEW COMMITTEE, ESTABLISHED UNDER THE 1971 TREATY OF TRADE AND TRANSIT, HELD ITS FOURTH MEETING IN DELHI MARCH 24-26. WHILE ACCOUNTS WE HAVE OBTAINED FROM NEPALESE EMBASSY AND INDIAN FOREIGN MINISTRY SOURCES  
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DIFFER SOMEWHAT, IT APPEARS THAT THE MAJOR TOPIC WAS THE PRICE

INDIA WILL CHARGE FOR EXPORTS TO NEPAL. INDIA AGREED TO SUPPLY REQUESTED QUANTITIES OF "ESSENTIAL COMMODITIES" (COAL, CEMENT, STEEL, ETC.) TO NEPAL, BUT, AS IT HAD WARNED BOTH PRIVATELY AND PUBLICLY, IT IS RAISING PRICES ON THESE FROM THE PRESENT DOMESTIC PRICE TO THE LEVELS AT WHICH IT SELLS TO OTHER NEIGHBORING COUNTRIES, SUCH AS BANGLADESH, SRI LANKA AND BURMA. COAL WILL INCREASE BY ABOUT \$40 PER TON; INCREASES ON CEMENT, STEEL PRODUCTS, AND OTHER ITEMS WILL BE LESS. NEPAL WILL BE FREE TO RAISE THE PRICE OF ITS EXPORTS TO INDIA (PRIMARILY RICE) SIMILARLY, BUT NOBODY HERE CAN TELL US EXACTLY WHAT THE SCOPE WILL BE FOR NEPAL TO DO THIS AND HOW FAR IT WILL GO TOWARD OFFSETTING THE INDIAN PRICE INCREASES. TRANSACTIONS WILL CONTINUE TO BE IN INDIAN RUPEES, NOT IN HARD CURRENCY.

2. IMPORT: THE NEPALESE EMBASSY DCM TOLD US THAT THE NEPALESE HAD HOPED THAT INDIA WOULD NOT IMPLEMENT THE PRICE INCREASE. BUT INDIA WAS FIRM. WHILE EXACT PRICES WILL BE SET ONLY IN SUBSEQUENT NEGOTIATIONS ON SPECIFIC COMMODITIES, INDIA MADE IT CLEAR THAT PRICES WOULD GO UP. COAL, FOR EXAMPLE, WOULD RISE FROM THE PRESENT LEVEL OF ABOUT RS. 60 PER TON TO BETWEEN RS. 300 PER TON (THE PRICE AT WHICH INDIA IS SELLING TO BURMA (AND RS. 350 PER TON (THE PRICE AT WHICH INDIA SELLS TO BANGLADESH)--AND MORE LIKELY TO THE LATTER THAN TO THE FORMER. SINCE NEPAL IMPORTS ROUGHLY 100,000 TONS OF COAL ANNUALLY, THIS WILL ACCOUNT FOR MUCH OF THE ADDITIONAL RS. 80 MILLION WHICH NEPAL EXPECTS TO HAVE TO PAY INDIA AS A RESULT OF THE PRICE INCREASES. NEPAL IS NOW TRYING TO DECIDE HOW TO DEAL WITH THE IMMEDIATE IMPACT OF THIS INCREASE--THE ONLY SPECIFIC POSSIBILITY WHICH THE DCM MENTIONED WAS SOME KIND OF RADICALLY INCREASED ASSISTANCE OR SUBSIDY FROM CHINA, WHICH HE OBSERVED WOULD BE TO COUNTER TO NEPALESE NONALIGNMENT.

3. THE DIRECTOR OF THE NORTHERN DIVISION IN THE INDIAN FOREIGN MINISTRY MAINTAINS THAT THE IMPACT ON NEPAL WILL NOT BE SO GREAT. INDIA IS PLANNING TO INCREASE ITS DOMESTIC PRICE OF COAL ANYWAY, PERHAPS TO ABOUT RS. 100. ALSO, NOBODY REALLY KNOWS HOW MUCH COAL NEPAL NEEDS TO IMPORT. THE FIGURE OF 100,000 TONS INCLUDES SOME COAL ORDERED BY NEPALESE FIRMS BUT DIVERTED FOR USE WITHIN INDIA. (THIS APPARENTLY HAS BEEN A SOURCE OF "SPOT" COAL FOR INDIAN CONSUMERS IN AREAS BORDERING LIMITED OFFICIAL USE

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NEPAL WHO CANNOT WAIT FOR THE SLOW DELIVERY BY THE NATIONALIZED COAL INDUSTRY IN INDIA.) WITH REGARD TO POSSIBLE PRICE INCREASES ON NEPALESE EXPORTS TO INDIA, THE INDIAN OFFICIAL SAID THAT THE INDIAN STATE OF KERALA IS ALREADY BUYING RICE FROM NEPAL AT CLOSE TO INTERNATIONAL PRICES. HE PUT THE OUTSIDE LIMIT OF THE POSSIBLE PRICE INCREASE ON NEPALESE RICE AT 20 PER CENT.

4. MOTIVES: INDIA MAINTAINS THAT TI WANTS TO INCREASE THE PRICE TO "RATIONALIZE" ITS TRADE WITH NEPAL. THE INDIAN OFFICIAL ALLUDED TO DOMESTIC PRESSURES RESULTING FROM THE DIFFICULT ECONOMIC SITUATION WITHIN INDIA AND ALSO TO BUREAUCRATIC OPPOSITION TO THE DIVERSION OF THE COAL SOLD TO NEPAL. HE ALSO MENTIONED THE PROBLEM OF OTHER NEIGHBORS, SUCH AS BANGLADESH, WHO HAVE RECENTLY SUFFERED A SIMILAR PRICE INCREASE ON IMPORTS FROM INDIA. THE RATIONALIZATION PROCESS BEGAN WHEN INDIA TOLD NEPAL A YEAR AGO IT COULD NO LONGER SELL POL TO NEPAL FOR RUPEES--LONG BEFORE THE INCREASE IN INDO-NEPALES TENSION RESULTING FROM EVENTS IN SIKKIM.

5. THE NEPALESE HERE, AS WILL AS SOME INDIAN JOURNALISTS, INSIST THAT THE DECISION TO RAISE PRICES IS "POLITICAL," TO SHOW INDIAN DISPLEASURE OVER THE NEPALESE FAILURE TO UNDERSTAND INDIAN SECURITY INTERESTS. NEPAL MUST UNDERSTAND, THE ARGUMENT RUNS, THE CLOSENESS OF THE RELATIONSHIP WITH INDIA AND THAT IT CANNOT HAVE ITS CAKE AND EAT IT TOO.

6. REACTION: THE MEETING WENT SMOOTHLY, ACCORDING TO OUR FOREIGN MINISTRY CONTACT, AND INDIA IS PLEASED BY THE INITIAL NEPALESE REACTION, WHICH REPORTEDLY HAS BEEN ONE OF "GENERAL SATISFACTION." THIS WAS APPARENTLY BASED ON THE COMMENT BY THE NEPALESE NEGOTIATOR, S.N. DAS, ON HIS RETURN TO KATHMANDU. HOWEVER, THE NEPALESE DCM BELIEVES THAT THE GON WILL HAVE TROUBLE SQUARING DAS' COMMENT WITH THE FACT OF WHAT HAS HAPPENED, ONCE THAT BECOMES KNOWN. HE THOUGHT, FOR EXAMPLE, THAT WHILE NEPAL HAD RECENTLY BEGUN GEARING UP TO DISCUSS WITH INDIA THE PROPOSED MAMMOTH KARNALI HYDROELECTRIC PROJECT, IT WOULD NOW BE MORE CAUTIOUS. (THE FOREIGN MINISTRY OFFICIAL CONFIRMED THAT INDIA WAS EXPECTING SOME DISCUSSIONS WITH NEPAL ON KARNALI SOON.)

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